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INFORMED BUDGETEER
The Discretionary Caps Edition

HOW TO WEAR A TIGHT CAP!

- The President's FY 2000 Budget claims to stay within the Budget Enforcement Act (BEA) spending limits or "caps". These spending caps, first established in 1990, extended in 1993 and 1997, and modified by the Transportation Equity Act for the 21st Century (TEA-21), today set limits on annual appropriations through 2002.

- The spending caps for FY 2000 first established by the 1997 BEA were:

  BA .... $537.2 billion; Outlays.... $564.3 billion

- The BEA authorizes adjustments to the caps for various legislative and non-legislative items. As an example, emergency spending enacted in a year, automatically adjusts the BA and outlays in that year, but also the estimated outlays flowing from the emergency spending in following years will adjust those outyears' caps.

- The two largest adjustments to the original FY 2000 spending cap were: $3.8 billion in outlays flowing from previous years' emergency spending, and $3.2 billion in outlays for the TEA-21 legislation enacted last year. Result, the total spending limit for FY 2000 is:

  BA..........$536.3 billion; Outlays... $570.9 billion

- The BEA also authorizes additional adjustments to these caps for: (1) moneys specifically appropriated to the IRS for EITC compliance, (2) moneys for International Organizations Arrearages, (3) moneys appropriated for Adoption Assistance Payments and Disability Reviews, (4) release of *contingent* emergency spending from previous legislation, and other items.
- The President's Budget requests funding for all these activities and therefore anticipates that the spending limits will be adjusted to accommodate his request. These anticipated actions of the Congress would add another $1 billion in BA and $3.5 billion to the spending limits above. Result, the spending caps for 2000 with anticipated adjustments would be:

  BA...........$537.2 billion; Outlays.... $574.4 billion

- The President's Budget proposes discretionary spending over these limits by nearly $17.8 billion in both BA and outlays. How can this be? The answer appears in the President's own budget documents:

  - Mandatory offsets which are designated for discretionary spending: $6.8 billion;
  - Transfer of 2000 PAYGO balances for defense discretionary spending: $2.9 billion;
  - Federal Tobacco Revenues: $8.0 billion.

- What are some of these mandatory offsets designated for discretionary spending? About $1 billion from the Corp of Engineers collecting harbor user fees, about $850 million from changing the accounting system for Military Retirement (a gimmick), $1.5 billion from superfund taxes, $1.1 billion from more FAA user fees, and $1.6 billion from changes to the Student Loan program, and $1.1 billion from Medicare waste, fraud and abuse.

- See now how easy it is to meet the caps if you assume taxes, user fees, and accounting gimmicks!

WHY ARE THE CAPS TIGHT?

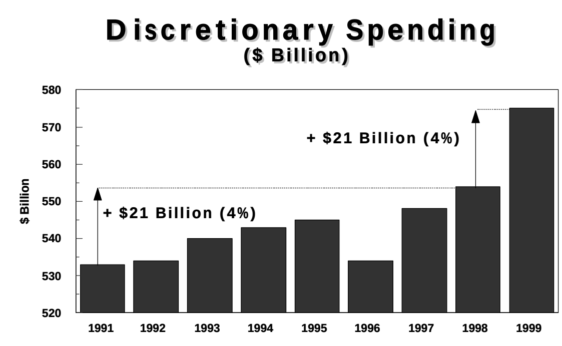
- One of the reasons that the discretionary spending caps are so tight this year is the fact that the starting point is a very high base due to a noted increase in discretionary spending for FY1999.

- The leap in spending last year contrasts sharply with prior experience. With the BEA's caps, discretionary spending rose between 1991 and 1998 by $21 billion, or 4 percent.

- With the enactment of last year's Omnibus appropriations bill combined with previous appropriations bills, outlays will jump from 1998 to 1999 by roughly the same amount, $21 billion or 4 percent. Thus, in one year, the growth in discretionary spending will match what previously took 7 years to achieve (see graph below).

- Before all the blame is heaped on the Appropriations Committee, let's take a closer look at some of these numbers. Last year's highway bill ensured a $4 billion, or 23 percent, increase from 1998 to 1999 in highway and transit spending. The 1994 crime bill ensured nearly a $1 billion, or 19 percent, increase from 1998 to 1999 in criminal justice funding. And, who can forget emergency funding? Roughly $13 billion in FY 1999 outlays is due to emergency spending from the Omnibus bill.

- But the Appropriations Committee encouraged by the Adminstration, also found one-time savings items — such as D.C. pension funds — that will not be available again and makes the job of meeting the caps that much harder.



PLAYING THE CAP GAME

- Taking its lead from the FY 1999 Omnibus Consolidated and Emergency Supplemental Appropriations Act (P.L. 105-277) enacted at the end of the last Congress, the Administration significantly ups the ante in the "cap" game by proposing an unprecedented $37.4 billion in advance appropriations for FY 2001 in its budget (see table).

- The 1999 Omnibus Act contained $9.3 billion in advance appropriations for the year 2000, largely for programs funded in the Labor-HHS-Education Appropriations bill. Thus, these amounts are "locked in" to come out of this year's $537.2 billion discretionary BA cap.

- The Administration continues the largest advance appropriation approved in the 1999 Omnibus Act — $6.1 billion for Title 1, Education for the Disadvantaged — and adds a new advance of $1.9 billion for Special Education. The Labor-HHS Subcommittee accounts for 29 percent ($10.8 billion) of the advance appropriations for FY 2001.

- The $12.7 billion in advance appropriations proposed for Department of Energy defense-related programs represents 34 percent of those requested for 2001.

- The Administration proposes for the first time incremental financing of military construction and family housing projects, providing $1.6 billion in FY 2000, and the remaining funding ($3.1 billion) in FY 2001.

- The Administration also requests advance appropriations for newly identified spending requirements for the State Department — $3 billion over the next five years for embassy security upgrades, and $1.0 billion for the Wye River Middle East peace memorandum. $1.8 billion in "emergency" funding was provided for embassy security in the 1999 Omnibus Act. The 2000 budget proposes that $900 million of the Wye River funding for 1999 be declared as "emergency" spending.

- The Administration proposes advance appropriations as far as the year 2018 for the procurement of NOAA equipment. Other agencies and programs proposed for advance appropriations beyond 2001 include DOE defense-related programs, Clean Coal Technology; the Indian Health Service; the Park Service; FAA facilities and equipment; NASA; the National Science Foundation; the Corporation for Public Broadcasting; and the Smithsonian Institution.

- The Administration can thus claim that it is meeting commitments of the federal government, but promise to pay for them another day by mortgaging a future spending caps. Let the [budget] games begin!

FY 2001 Advance Appropriations Request
(BA- $ in Millions)

Subcommittee	Advance approps.
Agriculture	200
CJS	1,021
Defense	374
Energy & Water	12,744
Foreign Operations	500
Interior	328
Labor, HHS	10,816
Military Construction	3,345
Transportation	739
Treasury, General Government	651
VA, HUD, & Indpendent Agencies	6,661
TOTAL	37,379

*The Administration also requests advance appropriations of $500 million for the Wye River Accord in FY 2002, and advance appropriations totaling another $2.7 billion over the FY 2002 through FY 2005 period for embassy security upgrades.
**Existing program funding schedule; non new advance requests.

ECONOMICS

HOW WOULD A RECESSION AFFECT THE SURPLUS?

- Both CBO and OMB project that there will be roughly $2.5 trillion in cumulative surpluses over the next 10 years. Many observers have noted that these are only projections, which could be very susceptible to any change in the economic outlook.

- In order to examine these concerns, CBO looked at how different economic growth paths could impact their budget projections.

- First, they examined two pessimistic scenarios where the economy falls into a recession early in the budget window. (This downturn is assumed to be similar in magnitude to the 1991 recession). One scenario is called "boom-bust", where fast growth today leads to higher inflation and subsequent Fed tightening, which produces a recession in 2000. The second is titled the "financial turmoil" scenario, where slowing global growth puts the US into recession this year, even without Fed tightening.

- In both cases, the greatest fiscal effect is felt the year after the recession — in that year, the actual surplus would be only half as large as CBO projects in its baseline case. However, it is important to note that the negative fiscal impact of a recession is short-lived — by 2004, the surplus in both pessimistic scenarios rebounds to roughly the same level as in the baseline case.

CBO Surplus Projections
Under Different Economic Scenarios
($ in Billions)

	2000	2001	2002	2003	2004
January Baseline	131	151	209	209	234
"Boom-Bust"	135	85	125	150	215
"Financial Turmoil"	75	105	195	235	265
Continued Good News	170	220	290	290	305

- In order to examine all possible outcomes, CBO also looked at an optimistic scenario where today's strong growth continues longer than forecasters now expect. CBO concluded that this outcome could boost the 2000-2004 cumulative surplus by $341 billion over its baseline case.

- Only time will tell which economic scenario results. However, it is interesting to note that CBO's exercise suggests that the multi-year surplus projections could be robust even in the face of a near-term recession.

CALENDAR

BUDGET COMMITTEE HEARING SCHEDULE

All hearings will be held in Dirksen 608 at 10:00 am unless otherwise noted. Additional hearings may be scheduled.

February 23: **Framework for Social Security and Medicare Reform;** Witnesses: Director of CBO, Dr. Dan Crippen. Additional witnesses to be announced. Time TBA.
March 2: **President's Fiscal Year 2000 Budget Proposal;** Witness: Secretary of Defense, William Cohen. *Hearing will be held at 2:00pm.

March 5: Committee views & estimates reports due to Senate Budget Committee.

✎EDITOR'S NOTE: The *Bulletin* will not be released next week due to the President's Day recess. Look for it in your mail boxes again on March 1st.